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## **Articulating Local Politics and Market Forces for Economic Development: A Case Study of Ethanol Development in Upstate New York**

**By Djahane Salehabadi and Max J. Pfeffer, Cornell University**

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## Executive Summary

In May of 2008 an out-of-state corporation specializing in ethanol production announced that it was backing out of its plan to build a plant in upstate New York. This decision came as a surprise and as a disappointment because the company had invested a substantial amount of time and money into the project, and because the proposed ethanol plant held so much promise for the economically depressed region.

This report focuses on why this seemingly ideal ethanol development project failed to materialize. Specifically, we asked: what is the relative importance of market factors and local permitting processes in siting a development project? What are the advantages and disadvantages of locally controlled permitting for development in upstate New York? Our study engaged with these questions and found that a mixture of local contingencies and market and political conditions combined to make it difficult to site the proposed ethanol plant. Specifically, the proposed ethanol project failed for three key reasons. First, the local population distrusted town officials in charge of development as a result of past events. Added to that, the lack of transparency during the environmental review and land transfer process exacerbated existing distrust. Further, locals were concerned about how the project would impact a rare species that lived on the proposed development site. The constituents' misgivings ultimately led to organized resistance in the form of a lawsuit as well as a widespread anti-ethanol development campaign. Second, New York State's emphasis on local control amplified the impact of the existing distrust. Due to the way New York's development process is structured, local officials, whom many residents already suspected of being corrupt, were in charge of evaluating and permitting the project. While local governance is not inherently antithetical to successful development, in this case, because distrust of local officials was already a factor, the structure of New York's permitting process amplified the effect of local resistance to the project. The state's development process stipulates that public approval and local input are important and must be sought out at key moments during the permitting process. This stipulation afforded those who objected to the project numerous occasions to stall the permitting process. Lastly, the drop in ethanol profitability, which was caused by a combination of dropping ethanol prices and rising production costs, rendered the project unviable.

This case study demonstrates that economic development is difficult to achieve because the favorable market conditions and political support are independently dy-

namic and must coincide for a project to move ahead. Moreover, economic development is typically not a step-by-step process that inevitably leads to a capital outlay. To the contrary, the process is one that engages a number of economic and political actors pursuing diverse interests within a particular timeframe. In our case, by the time the political process associated with the permitting of the ethanol project was to be completed ethanol prices had dropped and the developers were unable to secure adequate returns on their investment.

Although few development processes are alike, there are certain factors that economic developers can take into account in a local economic development effort. Much attention is typically given to the costs of doing business and the general regulatory requirements. Less consideration, however, is given to the issues faced specifically when dealing with local authorities. Attention to such matters is particularly important in New York State, where the permitting process for any development is concentrated at the municipal level.

More emphasis is needed on developing the capacity of local officials to facilitate development. Local leaders and officials must have the capacity to elaborate and implement development strategies and to fully take advantage of state and federal resources and opportunities. Leaders and public officials come from a variety of backgrounds and may not have had sufficient training to deal with complex and changing circumstances. They must have the capacity to competently manage the development process and instill the trust of their constituents. Only then can they effectively respond to emerging domestic and global market opportunities for community and economic development.

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# Articulating Local Politics and Market Forces for Economic Development: A Case Study of Ethanol Development in New York

## Introduction

In May of 2008 an out-of-state corporation specializing in ethanol production announced that it was backing out of its plan to build a plant in Upstate New York. This decision came as a surprise and as a disappointment not only because the company had invested a substantial amount of time and money into the project, but also because the proposed ethanol plant held so much promise for the economically depressed region.

The project began in early 2007 when the company linked up with a group of local New York farmers who were attempting to site a plant in their area. An unsuccessful project had left these farmers in need of financial backing. The out-of-state corporation was, in turn, seeking opportunities to expand its operation. Collaboration between the two parties promised to be mutually beneficial; the arrangement gave local entrepreneurs access to technological and financial resources, while providing the out-of-state corporation with local knowledge and connections.

The homegrown development project promised to create jobs and establish a new market for local corn farmers. Further, ethanol could be represented as a form of green development, which appealed to growing citizen environmental concerns throughout the state. Perhaps most importantly, the ethanol refinery was to be built on a redevelopment site in the center of the town. It had been difficult to find an alternate use for the site, due to limited infrastructure and the presence of a number of polluted “superfund” areas on the site. The developers had generously agreed to deal with all the limitations and stipulations that came with this unique piece of real estate. Yet despite all its positive attributes, by early 2008, two years after the out-of-state corporation had first announced its decision to develop in New York, the project was still tied up in the permitting process. Six months later, in May 2008, the out-of-state corporation made a final announcement that it was backing out of the development project altogether.

In this report we attempt to understand why this seemingly ideal ethanol development project failed to materialize. In particular, three questions guide our inquiry: What is the relative importance of political and market factors in determining the outcome of ethanol produc-

tion facility development in Upstate New York? What characteristics of different local permitting processes in New York are more or less amenable to articulation with markets? What are the advantages and disadvantages for articulation with markets of locally controlled permitting in New York?

At the heart of our study is the desire to understand if New York State’s unique development process contributed to the state’s lagging economic development. While many believe that the market alone determines the failure or success of a development project, others refer to the characteristics of a particular place to justify why development does or does not work. The latter argument is particularly pervasive in New York State. The assumption that characteristics intrinsic to New York—specifically, the structure of government, the high taxes, and the high level of government involvement and bureaucracy—are the principal causes of the state’s economic downturn is widespread. Indeed, during our research we were continually confronted with the argument that New York State’s governance structure caused the proposed ethanol development project to fail. As one developer we interviewed explained, “The amount of red tape you have to go through in New York makes it tempting to move our capital to states like California or even countries like Brazil or Argentina where they are grateful to get our business and don’t put up so many obstacles in your way as they do here” (Interview, September 17, 2007). But is New York solely to blame when development projects go wrong?

In our case study, the proposed ethanol project would have been on the way if no local opposition had been raised during critical moments of the development process. However, our case study also illustrates that no single actor or unique factor determines the success or failure of a development project. Local economic development is a complex process that involves a number of dynamic elements, many of which are unpredictable. Development projects are completed when several conditions are met at critical moments. Of particular importance to economic development are market and political conditions. Market conditions determine the extent to which investors are able to realize acceptable returns to their in-



vestments. Political conditions represent public approval and general agreement that a proposed economic development contributes to the public good.

Economic development is difficult to achieve because the favorable market conditions and political support are independently dynamic and must coincide for a project to move ahead. Moreover, economic development is typically not a step-by-step process that inevitably leads to a capital outlay. To the contrary, the process is one that engages a number of economic and political actors pursuing particular interests and attempting to achieve some articulation of these interests within a particular time-frame. In our case study, then, the ethanol development project failed both because local opposition and because New York State's structure of governance delayed the development project, but also because of the drop in the profitability of ethanol production. By the time the political process associated with the development project was to be completed, the developers were unable to secure adequate returns on their investment. In other words, the project failed because the political and economic processes did not articulate.

As such, our findings unsettle the unfounded, yet ubiquitous, belief that the state's unique development process caused the project to fail. To assume that factors intrinsic to New York, especially the state's emphasis on local governance, have singlehandedly caused the economic lag oversimplifies the complex interrelationships contributing to the state's economic condition. Furthermore, it reinforces the notion that economic prosperity and local, democratic governance cannot co-exist. This stance, in turn, can lead those pursuing economic development to champion the abandonment of local democratic government as a means to create a frictionless surface that is more appealing to global capital. Abandoning New York's system of local governance for the sake of attracting development is, however, to neglect the many positive attributes of this form of governance. It would be to throw the baby out with the bathwater.

As will become evident in our report, local governance and development are not inherently incompatible. Rather, trust and clear communication are critical factors in determining the success of a development project, regardless of whether governance occurs at the local, county or state level. New York State's unique development process is not inherently antithetical to economic development. We suggest that instead of blaming the structure of New York's development process, it would behoove those interested in furthering economic development in the state to invest time and resources into establishing a compre-

hensive strategic plan that includes a programmatic effort to expand local expertise and capacity to shepherd desired economic developments that are compatible with the state's unique development process.

In the end, while our analysis is certainly not extensive, we hope that this report will offer insight into the challenges and opportunities of articulating political and market conditions for economic development in New York State more broadly. Because of the unpredictability and complexity of market and political processes, there is no simple recipe for economic development. However, there are certain factors that economic developers can take into account in a local economic development effort. Much attention is typically given to the costs of doing business and the general regulatory requirements. Less consideration, however, is given to the issues faced specifically when dealing with local authorities. Attention to such matters is particularly important in New York State, where the permitting process for any development is concentrated at the municipal level. It is our hope that insight into the development process through our case study can eventually increase the likelihood of successful economic development in New York.

## Methods

Before we discuss our findings we would like to briefly outline our research methodology. From August 2007 until August 2008, we conducted semi-structured interviews with key informants involved with the ethanol project. We interviewed executives at the out-of-state company, officials at the local development agency, the local planning board and the planning board in the neighboring affected town. In addition, we interviewed individuals and groups who opposed the project as well as state-level development officers. Our list of informants is not exhaustive. We selected actors who we identified as key players—that is actors who were directly involved in the siting process. We purposely chose individuals who were, in our opinion, representative of their constituency. We conducted at least two interviews with each informant.

During the interviews, we asked respondents to recount the sequences of events from their first encounter with the proposal up to the abandonment of the project. We also asked interviewees to speculate on what the problem was. That is, we asked them to explain why the development project was unsuccessful. We also inquired into actors' perceptions of others involved in the process. Who else was involved? What steps were taken? What were the obstacles? In addition, we collected and ana-

lyzed documents pertaining to the ethanol development project from institutional websites, blogs, published materials and news articles.

## Overview of Findings

A mixture of local contingencies as well as structural market and political conditions articulated in such a way that made it difficult to site the proposed ethanol plant. Specifically, the proposed ethanol project failed for three key reasons. First, the local population distrusted town officials in charge of development as a result of past events. Miscommunication and lack of transparency during the permitting process for the ethanol plant further intensified residents' suspicion of local authorities. Residents claimed that the officials promoting the development project were corrupt. Ultimately, the population's misgivings, coupled with concern about the welfare of a rare species living on the proposed development site, led to organized resistance in the form of a lawsuit as well as a widespread anti-ethanol development campaign.

New York State's emphasis on local control amplified the impact of the existing distrust. Because of the way New York's development process is structured, local officials, whom many residents already suspected of being corrupt, were in charge of evaluating and permitting the project. For instance, many distrusted the agency that coordinated the permitting process. Thus, the project was immediately perceived as yet another questionable endeavor led by a group of untrustworthy individuals. Had county or state officials, who were more removed from local politics and gossip, overseen the permitting process, the project might have been met with less initial resistance. Local control only amplified distrust. Had another local agency with less of a negative reputation coordinated and promoted the project, it would have, in all likelihood, been more readily accepted. New York's emphasis on local control over development gave local residents the tools to stop the unwanted project. The state's development process stipulates that public approval and local input are important and must be sought out at key moments during the permitting process. Local residents capitalized on this stipulation delaying the siting process until ethanol development was no longer economically viable.

Finally, market forces influenced the siting process. Renewable energy generally, and ethanol in particular, is a volatile form of capital investment. When the out-of-town developers initially proposed to build a corn ethanol facility in New York, the profit margin for production was high. The businessmen expected to make a quick

return based on the favorable market as well as the state and federal subsidies. A year later, by the time all necessary permits were obtained and construction could finally begin, ethanol production was not nearly as lucrative as it had been when the project had first been proposed. By the time the project could move ahead ethanol prices had dropped and production costs had risen. During an interview in September of 2007 the out-of-town developer explained:

*The project has been stalled for too long. At this point there is no rush to get the plants running right away. Timing is everything. A plant should only be built when market conditions are favorable. At present the market is flooded. Had the plants been built when scheduled (not been slowed down by opposition) we would have been able to completely recover our initial investment within one or two years. The goal for our company at this point is to have the paperwork ready so should another window of opportunity arise, they are ready to build (Interview September 17, 2007).*

Note that during this interview in September 2007 the developer insisted that he would still wait for another "window of opportunity". By early 2008, however, the profit margin for ethanol had sunken even lower. It appeared unlikely that ethanol production would once again become as profitable as it had been in 2006. Six months later, the out-of-town corporation backed out of the project altogether. This decision indicated that the developers saw little likelihood of making a profit on ethanol production in the near future.

This account is similar to others around the country. For example, on July 15, 2008 National Public Radio reported:

*A rush to cash in on ethanol has slowed as soaring corn prices squeeze profit margins for producers of the alternative fuel. At a recent high of \$7 per bushel, the corn used to make ethanol has tripled in price since many plants were built two years ago, and some facilities have been shut down or put on hold. Corn is now more expensive than it was when many of the ethanol plants were built ... Two years ago, when many of the plants were being built, corn was \$2 per bushel, making ethanol production so profitable, that in some cases a plant could be paid off in just 6 months (Siegel 2008).*

Economic factors alone, however, were not solely responsible for the failure of the proposed project. In fact,



no single factor is responsible for the failure of a proposed venture. Lack of trust in local officials, the structure of New York's development process, and market forces all came together to undermine the viability of the intended ethanol project. Below, we will examine each individual factor in greater depth. A number of general observations about development in the state will follow. We end the report by discussing what training programs targeted at local leaders can do to make localities more effective in encouraging development.

## (Dis)Trust in Local Development

A lack of trust in local officials delayed the siting process for the proposed ethanol plant in Upstate New York. Specifically, distrust of the Industrial Development Agency (IDA)<sup>1</sup>, was a critical factor in shaping resistance to the project. The IDA promoted the development project and coordinated the regulatory process. According to numerous informants, residents distrusted the agency because of how it had handled development projects in the past. Specifically, respondents spoke poorly of the then director of the IDA who had been the target of public criticisms on numerous past occasions. Town supervisors accused him of being corrupt and of pushing through secret deals with local entrepreneurs. The head of the IDA was also the local head of economic development and of planning. Respondents claimed that they were concerned about his potential conflict of interest.

The following post on a website devoted to challenging the proposed project perhaps best represents the grounds on which locals opposed the project:

*Our leaders are not acting in the interests of the public at large, but rather on behalf of a few influential individuals to further their interests at the expense of the rest of us. They have been making decisions behind closed doors, and emerge only to spread disinformation about what they are doing and whose interests they are serving" (accessed August 30th 2007).*

Locals also distrusted the IDA's board of directors. Some claimed that the board members were involved in corrupt business deals as well as associated with a ques-

tionable group of politicians in the state capital. As one informant explained, "Some members of the IDA board represent a few big companies. They do not care about the quality of life of the local residents" (Interview, November 14th 2007). Approximately halfway through the development process, a number of board members were indicted for corruption. This, obviously, further entrenched the perception that the board was not to be trusted. Another interviewee elaborates:

*[The] County is small (32000-34000 residents). Everybody knows everybody's business and the mismanagement of [the redevelopment site] has been an issue for some time. There has recently been an investigation into the misappropriation of funds and equipment from the old site. The DA from [another county] has been hired to do an investigation and he's already released the first set of indictments. We expect another wave of indictments soon and we won't be surprised if a couple of members of the IDA's board are among those charged as well (Interview November 22, 2007).*

Locals perceived a close between the IDA officials and board members and the farmers collaborating with the out-of-state company. This did not help instill trust in the government agency. The local farmers had the reputation of cheating their neighbors. Interviewees referred to past events during which these entrepreneurs pushed through deals and misused their connections, in particular connections with IDA and state officials, to get projects through. According to one respondent, during a meeting to discuss the proposed ethanol project, one of the local partners told local activists that they were "little" and that he was going to "run right over" them (Interview, November 20, 2007). A local official we spoke to referred to the local entrepreneurs as "big time sleazebags" (Interview, January 22, 2008). People we spoke to were already suspicious of the project merely because of who was involved. A series of events amplified suspicion about the proposed ethanol plant. The IDA worked closely with the town planning board to obtain appropriate zoning for the development project. However, the speed at which zoning for the project was obtained raised suspicion, ultimately leading to a lawsuit. Further, the IDA also immediately began the environmental review process and requested lead agency status for the review. Typically, a large-scale development project is required by law to go through an environmental impact review process called the State Environmental Quality Review (SEQR). The review of all large projects must be coordinated by a designated lead

<sup>1</sup>IDAs are charged with the task of stimulating economic development in New York. Specifically, these agencies distribute state and federal financial incentives to private actors as a means to attract development. They report to the New York Department of Economic Development and the Office of the State Controller. As of 2006 New York had 15 IDAs. For more information on these agencies see Hevsi, A.G. "Industrial Development Agencies in New York State: Background, Issues and Recommendations". New York: Office of New York State Comptroller. May, 2006.

agency. Any agency that issues a permit required for the development to proceed (an “involved” agency) may take on the role of lead agency. To take the lead, an agency must send a letter informing all involved agencies of its intention to take the lead. Involved agencies have a limited time to contest this decision, with authority to assign lead status ultimately assigned to the Commissioner of the Department of Environmental Conservation.

In our case, the IDA requested lead agency status. A number of stakeholders commented on how uncommon it was to have the IDA act as lead agency for the SEQR process. This is because the IDA’s role is to promote development. It is general practice to assign the role of lead agency to a more neutral regulatory body such as the town planning board. Having the IDA as lead agency raised suspicion in particular among local citizens who were concerned about the impact the project would have on the local environment. These individuals feared that environmental concerns would become secondary to economic development goals.

Once it became lead agency, the IDA took a number of actions that only furthered suspicious about the project and those promoting it. Within a few months of obtaining lead agency status in January of 2007, the IDA issued a “negative declaration”. This meant that a complete environmental impact assessment would not need to be completed. The declaration intensified suspicion. Local actors found it hard to believe that an ethanol plant would have no significant environmental impact, which is what a negative declaration implied. The decision to issue a negative declaration was particularly hard to understand since the plans for the development project also included the cultivation of biomass—specifically, willow seedlings that would be planted on several thousand acres. The rare species locals wanted to protect are known to enjoy eating these seedlings. Therefore, individuals were skeptical that planting acres of this crop would not affect the wildlife in any way. In addition, the public expressed concern about the conditions under which the IDA was going to transfer the land to the developer. Numerous stakeholders were under the impression that the out-of-state company was going to obtain a relatively large section of prime real estate for what was believed to be a very low cost and with what appeared to be no stipulations.

It is important to recall that opposition to the project was not strong when the proposed project was first unveiled. In fact, most individuals claimed that they initially welcomed the proposed ethanol plant. It was only when the zoning process appeared to be rushed, and when it appeared that the company would obtain 4,500 acres of land for next to nothing and with no apparent

restrictions that both citizens and individuals in decision making capacities openly expressed concern about how the permitting process was being handled. It was at this point that opponents to the project took actions to thwart development.

Four groups formally expressed concern about the project. The Town Board of the affected village wrote a letter to the IDA asking them to be more transparent about the terms and conditions under which it was handling over the land to the out-of-state corporation. In the letter the town board wrote:

*We believe that there is potential for major environmental impact if the development occurs to the maximum extent described in the proposal on several items in Part 2 of the Environmental Assessment Form. We encourage [the] IDA to check box 2 on these items and to provide a detailed response in Part 3. In doing so, please investigate carefully whether the impact can be mitigated, and develop a plan that assure such mitigation.*

The neighboring town’s planning board also expressed concern about air quality, noise, the potential threat to the rare species population, the potential recreational opportunities, the increase in truck traffic, as well as a number of other environmental impacts (accessed November 21 2007).

The New York Department of Environmental Conservation (DEC) took issue with the negative declaration. In a letter dated March 13, 2007, the DEC’s regional permit administrator requested that the IDA overturn its negative declaration for the State Environmental Quality Review. In addition, a DEC official openly criticized the project at a public information meeting hosted by the IDA and the developer. The DEC maintained that the proposed project would have a significant environmental impact. Of particular concern was the plan to convert 3,400 acres of early successional shrubland to monoculture biomass production. As the DEC explained in a subsequent letter on June 28th 2007:

*If nothing else, the species diversity of vegetation and wildlife present will be lower in the converted areas. The project site contains one of the largest blocks of shrubland in this area of New York State and the wildlife, particularly species of birds, which depend upon this area habitat for food, nesting and shelter are species in greatest decline in the Northeast (DEC letter June 28th 2007).*

Two local citizens groups—namely, a community wildlife organization as well as a group of homeowners—also publically articulated their reservations about the proposed project throughout 2007. The community wildlife group was comprised of local environmentalists who had had an interest in the property since it had become available in the 1990s. This group's objective was to protect the rare species population living within the redevelopment site. As the chairman of the organization explained during an interview on November 20th, 2007:

Since its inception in 1999 our group's objective has primarily been about educating the public about the history and wildlife and about getting information about properly developing the property out. The latter is important because the IDA has not been forthright from the get go. The group had submitted a number of proposals for how to develop the site. However, the IDA did not accept them.

The conservation group launched an extensive media campaign against the project when the plan was first announced. It put up posters, repeatedly wrote letters to the local newspapers and placed a number of large billboard adds in the vicinity of the town. The group also contacted the national media. The group was particularly worried that the rare species would not be able to survive once the proposed ethanol plant was built; according to the development plans the conservation area would be greatly diminished, leaving little room for the rare species to live. . The second local group was comprised of a group of citizens who owned property near the site. This alliance of approximately 100 individuals, which was primarily concerned about traffic, smells and noise, filed a lawsuit in which they petitioned the court to rescind the special-use permit and the zoning change that the IDA made for the proposed project. In addition, the group asked that the developers be required to complete a full environmental impact statement. The organization elaborated on its reasons for going to court on its homepage:

*Incredibly, on February 8th 2007, the IDA issued a finding that stated: 'The project does not include the potential for a significant adverse environmental impact.' On that basis, the project was allowed to proceed without an Environmental Impact Statement (EIS), the only process which would have given the public a meaningful study of the impacts of a project of this scale. The Department of Environmental Conservation is on the record as not stating that the decision not to require an EIS is NOT SUPPORTED by the available documentation, AND SHOULD BE RESCINDED! It is for this reason that [our*

*alliance] filed an 'Article 78' petition on June 8, 2007, challenging the decision. We agree with the DEC that a proper assessment of the impacts of this project has not yet been made. The information submitted by [the out-of-state company] in their initial application was full of errors, omissions, and misleading information. Instead of following the formal process required by the state's SEQRA law, the applicants have sought to allay public concern by running a series of news report ads and conducting a few slick public presentations, where they have used highly selective information to try to present their project in a favorable light. A sales pitch is not an environmental review. Many members of the public remain concerned that, in the absence of a proper EIS, as required by law, we simply don't know what the real impacts of this project will be. There are good reasons why ethanol plants elsewhere have been subjected to the EIS process. Perhaps a handful of individuals stand to profit from this project, but we need to consider the larger interests of the county and the region as a whole (Web blog accessed September 2007, emphasis by authors).*

It is important to note that both citizen groups did not object to the development project. During an interview, the leader of the wildlife conservation group stated that he had nothing against the out-of-state company. In fact, the conservation group eventually managed to forge a Memorandum of Understanding (MOU) with the out-of-state developers in April of 2007. Moreover, the homeowner group's eventual lawsuit was directed at the IDA, not the out-of-state company. The homeowner group argued that the IDA and the town failed to follow established procedures during permitting and zoning.

Citizens and even some officials we interviewed were troubled by the fact that the IDA was entrusted with managing the land. Furthermore, those against the project were also concerned by how the agency was managing the property. As one respondent asserted,

*From the beginning the IDA has not been forthright about its plans for the [redevelopment] site. For one, while they claimed that they cared about the rare species, they never really entertained the idea of conservation. The previous director of IDA said he didn't give a hoot about the rare species in an interview with a reporter. Plus, they never took any alternative proposals seriously. They just did whatever they wanted. (Interview, November 2007).*



Local actors expressed their concerns on a web blog: “The concern that matters most, at the moment, is that not enough information is being provided [by the developers].” A second post claimed, “Apparently, for the sake of 35 jobs, we are being asked to rubber stamp a project which will clearly affect the surrounding area in profound and unknown ways, and we are expected to care so little about these environmental impacts that we should not inconvenience the promoters of this project.”

Finally, the developers ultimate motivations was a major issue as indicated by the following comment made by one of our informants,

*Many of us felt that the company was only in the “game” to build plants for the federal and state subsidies. We were worried that as soon as the lucrative subsidies ended in five years, they would most likely either sell the facility or close it down (Written correspondence October 2008).*

Officials at the IDA were aware that some local residents did not trust the agency. However, when asked about this issue, they told quite a different story than their critics. First, officials at the IDA clarified that, like the local population, they had initially hoped that the redevelopment site would be used for recreation and conservation. When the site was abandoned in the mid 1990s, a group of local officials formed a committee to develop a land use plan. Because the redevelopment site housed the only known population of a rare species in the country, maintenance of the fence surrounding the area was key to the survival of the rare species. In fact, this population had come about because they were cut off from other populations by the fence. Therefore, the first land use plan recommended transforming the site into a recreation and conservation area. However, the state government refused to assume the costs of preparing and maintaining the land for recreation and conservation—which included upkeep of the fence.

Disappointed by the state’s refusal, the IDA explains that the committee had no choice but to develop an alternate plan. In the second land use plan, industrial development and conservation would have to coexist so that the former could cover the cost of the latter. In other words, a developer who wanted to use part of the redevelopment site would have to pay to keep up the fence in order to protect the rare species. In fact, maintenance of the fence became a non-negotiable part of developing the land. However, maintenance of the fence was expensive. Many potential developers either could not afford this extra cost or were simply unwilling to pay.

Prospective developers would also be obligated to

maximize open areas when designing the layout of their site. Maximum open area would provide the rare species with a habitat large enough to ensure their survival. In other words, another stipulation was that seven thousand five hundred acres, which made up the conservation area, could not be divided into small parcels. Finally, the property lacked appropriate infrastructure and contained a number of polluted superfund sites. While the federal government would assume the costs associated with remediation, the cleanup process would inevitably complicate the development process. Further, the developer would have to assume a portion of the infrastructural costs. In brief, the physical characteristics of the proposed site made it difficult for the IDA to find suitable development projects. For ten years the IDA struggled to attract development on that site.

Whereas citizens thought that the IDA had obtained control of the property through dubious means, again officials at the IDA offered a different account. When the operation at the site closed during the 1990s, the county board of supervisors thought it would be best to hand over the management of the land over to the IDA rather than create a new organization, since the town had limited resources. This was because the IDA already existed and local authorities were convinced that it had the capacity to deal with the property. Far from being power hungry, the IDA was not eager to assume the responsibility for the property. Dealing with the previous owners of the land, finding suitable developers, making sure the fence was maintained and the rare species were protected cost time and money. This task put a lot of strain on the IDA, which employs the equivalent of 3 full time staff members.

Officials at the IDA were clear that having been entrusted with the task of managing the land was more of a burden than anything else.

*We already had a lot on our plate so we were not particularly pleased when the county redevelopment planning committee—which formed from 1995 to 1997 to determine what would happen to the redevelopment site—determined that we should take over the responsibility of managing the redevelopment site. Obviously, it did not make sense to create a whole new agency to manage the land since we had the know-how. However, we were reluctant to take on the project since it was going to cost a lot in terms of people hours and financial resources (Interview June 10th 2008).*

Not only was the redevelopment site difficult to develop for the reasons outlined above, but officials at the IDA were also enthusiastic about the proposed ethanol plant given New York State's depressed economy. The overall economic performance of this region has declined steadily for the past few decades. When considering employment growth between 1995 and 2005, New York ranked 39th among U.S. states in private sector employment growth. If Upstate were considered a state in its own right, it would have ranked 47th. An important reason for this continued decline is the loss of manufacturing employment, and the failure to attract significant investment in different industries with a potential for growth. The loss of relatively well-paying manufacturing jobs merely adds to the economic distress faced in the region, since new jobs coming into the area often do not pay as well as the jobs lost (see Figure 1).

New York's economic downturn was particularly pronounced in our case study town. Since the mid 1990s, the town had experienced severe economic depression. The closure of operation at this site in 1995 led to 1,800 lost jobs. Shortly thereafter, a local psychiatric ward as well as a manufacturing firm closed down. These events led to additional job losses. As a result, this particular section of

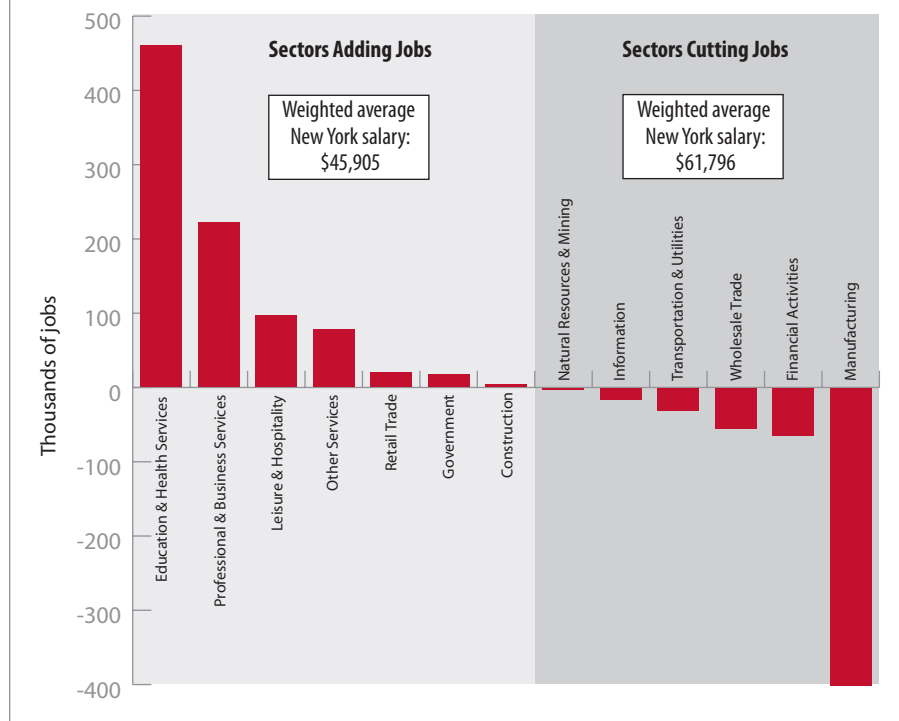
Upstate New York became economically depressed with few prospects for new development. New York's economic condition, which was amplified in the small town we studied, meant that there were few prospects for development and that there was a lot of pressure to attract development projects, especially those that would be willing to accept the complications associated with developing on that particular piece of property.

In sum, the redevelopment site's lack of appeal for developers, the cost of maintaining the property as well as the region's economic depression, put pressure on those charged with local economic development in the area to find a suitable development project as soon as possible. According to local development officials, the project would provide much needed jobs and property tax revenue for the town. Furthermore, the out-of-town ethanol developer agreed to take over the cost of maintaining the fence, indicated that it was willing to work with local conservationists to develop a site plan that maximized the roaming area for the rare species, and agreed to assume the cost of cleaning the superfund sites as well as the cost of transportation and infrastructure development. The IDA explained that it heavily supported the project for these reasons and not because the proposed ethanol plant would benefit any particular individual.

While it is not in our position to evaluate whether distrust in the IDA was well founded, or whether the IDA was entirely misunderstood, this case exemplifies that trust is an important factor in the development process. Lack of communication and distrust can lead to frustrations among citizens as well as among potential developers. Distrust and suspicion exacerbated negative attitudes toward the IDA as well as the out-of-town developer. In one interview, a frustrated executive at the out-of-state corporation asked:

*Why do these people think it's all corrupt? The IDA put us through the ringer. The IDA was demanding and rigorous, more so than we would have liked. Why can't residents see this? (Interview September 17, 2008).*

**Figure 1:** Change in Number of Jobs Statewide by Sector, 1990-2005.



Note: "Sector" refers to BLS "super-sectors." All super-sectors are included in the analysis above, collectively accounting for the entire New York State economy.

Source: A. T. Keamev analysis of Bureau of Labor Statistics (BLS)

When asked what he would do differently, another executive responded,

*I would take public opinion incredibly seriously. We took the time with the public but I underestimated the importance of public relations. If I had the chance to do everything over again, I would visit every person who had reservations about the project and address any concerns they might have (Interview, April 22, 2008).*

Changes like the adoption of a new technology or the development of a new production facility may hold great promise but also present a certain degree of uncertainty or risk. When this uncertainty is considered, fears of unexpected negative outcomes may be aroused. In addition to fears about negative outcomes, there may be a sense of uncertainty about who has the responsibility for and who bears the costs of possible damages.

Typically public officials have the duty to see that developments are managed responsibly, and that any unintended negative consequences are handled fairly and effectively. Lack of trust in the agencies or leaders overseeing a development project can be a significant impediment to its completion. For example, if community members mistrust those responsible for handling possible negative outcomes, they may oppose the development or propose alternatives to it. Such community opposition to a variety of developments is a common occurrence. This outcome would be expected given the results of research showing that in the absence of trust individuals tend to pursue their individual interests at the expense of the group. In contrast, when individuals trust other members of the group, they are more likely to cooperate in achieving an outcome that is in the best interests of the entire group. A lack of trust in local officials, whether it is founded on the truth or merely the result of poor communication, can be detrimental to an economic development project. As we will see below, the importance of trust in the development process is particularly important in New York State, which emphasizes local control over development through Home Rule.

## Local Governance

The structure of New York State's governance system also influenced the outcome of the proposed project. A prospective developer comes in contact with New York's unique governance structure when s/he attempts to obtain permits and approval for a proposed project. Because economic development can affect the community in a variety of positive and negative ways, permits of various types as well as appropriate zoning are required

for any development to occur. As noted above, a prospective developer also has to go through an environmental impact review process, the State Environmental Quality Review (SEQR). Typically, the issuing of permits as well as the SEQR process requires a series of public hearings and deliberations by elected officials.

To understand the factors that influence the failure to attract investment to Upstate New York necessitates that we examine the local structure of government. Usually, the most common issue identified by analysts and businessmen alike is the high cost of doing business. Certainly New York's high taxes are a disincentive to invest in the state. Other costs like energy are also high. But there are sometimes various incentives offered by the state to compensate for the high cost of doing business, and even then some efforts to attract new investments fail. Some have pointed to the balkanized economic development assistance provided in New York. For example, it has been reported that there are at least 28 New York state agencies that play some role in promoting economic growth. This lack of coordinated development support is merely exacerbated by the state's large number of local government units that have some say in local business development. In fact, the New York Commission on Local Government Efficiency and Competitiveness was established in 2007 with a charge to identify possible changes in state policies that would, among other things, streamline local government, reduce costs and improve effectiveness. In speculating on likely results should its recommendations be adopted, the Commission wrote the following: "Local governments will operate under more modern, consistent, and understandable rules, and citizens will have a clearer understanding of where responsibility lies for services" (p. 1). This report is one of the few documents we have found that directly addresses the problems associated with a patchwork of 1,607 general purpose local governments with the authority to enact laws related to zoning, planning, and land development, all of which are of great significance for economic development. Given the fragmented structure of state economic development assistance and the complex patchwork of local rules and regulations impacting development, economic development in New York is strongly influenced by factors at the local level, and the conditions encountered by economic developers anywhere in the state can vary substantially.

New York State's constitution and subsequent legislation establish the principle of "home rule" which entitles local governments to self-govern in local affairs. The origins of the general principal have been traced back to the Magna Carta and even earlier, and it has been claimed that in New York home rule was asserted before the



Crown as a right by colonists to hold town meetings and deal with local concerns like the construction and maintenance of roads and care of the poor.

As practiced in New York today, the principle of Home Rule resides with the primary authority –village, town, city, or county. In New York there are 1,607 of these so-called “general purpose governments.” They all have elected governing boards and under the home rule provisions of the state constitution they have the authority to levy property taxes, issue debt and pass laws regulating land use and development within their jurisdictions. Home Rule gives local governments the broad authority to pass local laws relating to property and governance structures, provided such local laws are consistent with the New York State constitution and other legislation. Specifically, this authority allows local governments to enact laws related to zoning, planning, land development and natural resource conservation.

Home Rule has several implications for understanding economic development in New York. Because authority for land use decisions resides with the primary local authority, there is no uniform policy and local land use regulation, and planning practices vary widely. In this context local officials wield a great deal of influence and bear much responsibility in the development process. They enact and enforce the basic conditions of development (e.g. land use zoning) and mediate the interests of developers and the community. Because local officials are central in the development process, they must command the trust of developers, community groups and individual community members for this process to move forward smoothly. When trust in the ability of local officials to fairly and effectively handle a development project is lacking, opposition is likely to emerge.

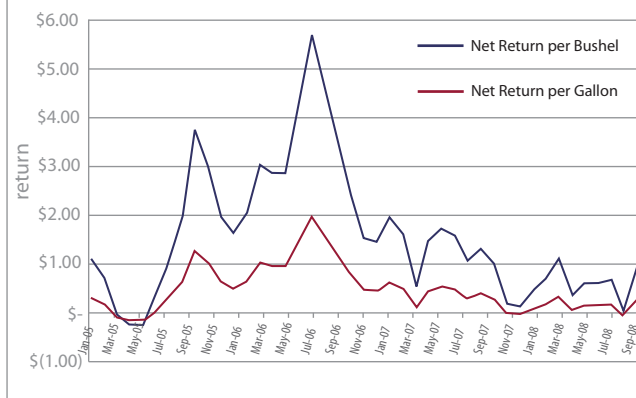
The political process associated with development, which occurs at the local or municipal level in New York, is somewhat unpredictable since a variety of public concerns, some of which may be unanticipated, may be raised about a particular development. If the permitting process is considered legitimate, one can anticipate that deliberations will proceed apace and the requisite permits will be issued subject to the investors agreeing to meet certain conditions. But another source of uncertainty comes into play if the legitimacy of the permitting process is called into question. A legitimate process is one that is widely viewed as resulting in decisions that are in the general public interest given the conditions under consideration. Lack of trust in the process can lead to appeals to outside authorities (e.g. the courts) for the adjudication of conflicting claims.

We have argued that New York State’s de-centered and heterogeneous governance system is not inherently antithetical to economic development. Contrary to the belief, which is widespread among developers in New York, that local governance has been the sole culprit in New York’s lagging economy, we contend that a host of contingencies determine if the permitting process runs smoothly. Notably, New York State’s governance structure elevates trust in local officials to a critical factor in determining the success of a prospective development project. As our case study highlights, the (IDA), which took the lead in the development process for the ethanol plant, was unable to establish and maintain trust with local residents as well as other permit-issuing agencies. This had dire consequences for the outcome of the proposed ethanol project. However, had local residents trusted their officials, thereby rendering the political process associated with development less complicated, the proposed project still might have been unsuccessful. Beyond trust and the structure of New York’s governance system, market dynamics represent the third key ingredient in shaping the outcome of proposed economic development projects.

## Market dynamics

Political factors at the local and state level influenced the development process. However, the success and failure of any development project is contingent upon the successful articulation of political and market dynamics. To illustrate, in our case study the out-of-town company and its local counterpart first submitted their proposal to build an ethanol plant in Upstate New York in January 2007. The decision to invest in building an ethanol plant in New York came at a time when ethanol production had become highly profitable. This increase in value was prompted by the federal government’s decision to no longer support the use of methyl tertiary-butyl (MTBE), a fuel additive. Until 2006 oil companies had used MTBE to comply with federal policies regarding the level of air pollution associated with burning gasoline. However, MTBE was associated with groundwater contamination. Ethanol performed the same function as MTBE, but it did not contaminate the groundwater. As a result, ethanol production became a lucrative endeavor almost overnight. The low price of corn—at the time corn cost \$2 a bushel—, the 51-cent-per-gallon federal tax credit and the 25-cent New York State subsidy of which ethanol producers obtained a portion, further enhanced the high profit margin of ethanol production (Siegel 2008).

**Figure 2: Net Returns of Ethanol Production (profits) per Bushel and per Gallon**



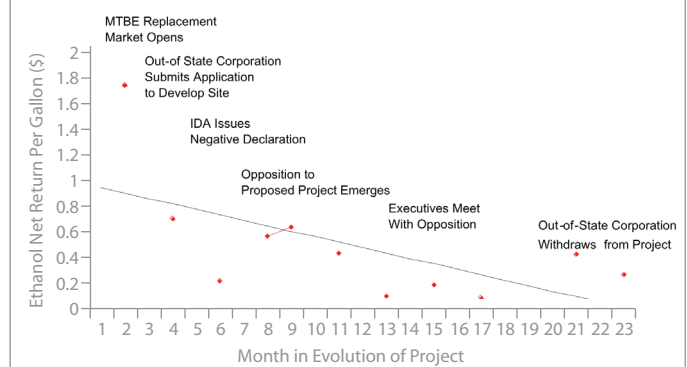
Source: Iowa State University Extension, 2008

In order to reap the financial benefits of the ethanol bubble, ethanol developers needed to act quickly. Construction was to begin as soon as possible. However, in our case study, resistance to the project peaked in early 2007, a critical moment in the race to corner the MTBE market. It was in February of 2007, that the chairman of the neighboring town wrote a letter to the IDA requesting a full impact study. The local conservation group launched its resistance campaign in March. It was during this month that an article on the rare species controversy appeared in the New York Times. Finally, local residents filed their lawsuit against the IDA during this time as well. Public resistance hit at a critical moment. By the time we spoke to the out-of-town developers in September of 2007, the executives stated that the MTBE replacement market had been flooded. According to these developers, the window of opportunity had passed due to public resistance. Chris Hurt, professor of agricultural economics at Purdue University explains, "The ethanol industry is going through some ... adjustments or, we might say, growing pains. We've seen some very rapid changes in prices" (NPR July 15, 2008). Hurt clarifies that two factors explain the drop in profitability during 2007-2008. First, the need for a MTBE replacement was quickly met. And second, corn prices had risen due to increased demand.

By early 2008, the margin of profitability for ethanol production—which was narrower in New York State due to the high utility costs—had decreased dramatically. We interviewed executives at the out-of-town corporation as well as officials at the IDA during this period. When asked about the status of the project, the investors reported that they were waiting for the IDA to secure government grants for the construction of transportation and utilities infrastructure. Officials at the IDA, in turn,

explained that they were waiting for further instructions from the developers. The attitude towards the project had shifted substantially. Whereas in the past the IDA and the out-of-state corporation had spoken with urgency about dealing with local resistance to the project, obtaining all the necessary permits and moving through the SEQ process, now both parties seemed willing to wait. Finally, in the late spring of 2008, at a time when the net return on ethanol production had hovered around 16-25 cents/gallon for months (August 23, 2008), the out-of-state corporation declared that it was backing out of the project altogether.

**Figure 3: Timeline of Ethanol Plant Development**



Markets by their very nature fluctuate and the returns to investment needed to justify capital outlays depend on prevailing prices within a specified planning period. Because investors typically cannot control markets, timing is a central aspect of economic development. When viable investment conditions are in place, investors must seize those opportunities or risk losing them, at least for some period of time. The representatives of the out-of-state company were explicit that timing was the key to the success of their development process. As indicated above, they estimated that if the ethanol plant could be built in a particular timeframe, they would be able to make a return of their investment within one or two years. However, should the timing of the project be off, then it would not be worth building the plant. In our case study, the permitting process was delayed due to distrust in local officials, the effects of which we amplified by New York's structure of governance. This delayed construction of the plant, leading the developers to miss the critical window of opportunity.

The temptation to hold the political process constant, in other words, to create a situation in which developers can immediately capitalize upon possibly fleeting market opportunities is understandably great. In fact, a number

of counties in New York State have attempted to bypass or hold constant the political process associated with development, through a new initiative called the shovel ready program. Shovel ready refers to a pre-permitting program, where a community or a local developer identifies a site for a specific form of economic development and obtains all necessary permits, including the SEQR, for a particular form of development. Typically, on a shovel ready site all major preliminary work such as infrastructure construction, soil and geotechnical tests has been done. Often, the developer only has to decide on landscaping and go through the site plan review.

The shovel ready program is an attempt to attract new development to the state. Since all necessary permits have been obtained in advance a developer can begin building immediately. The New York State Governor's office writes, "By reducing the time it takes a company to begin construction of a new facility, New York State and its local partners are able to provide valuable savings to the business and job opportunities for local residents" ([http://www.gorr.state.ny.us/SR\\_welcome.html](http://www.gorr.state.ny.us/SR_welcome.html), accessed 24.4.2008). In brief, the shovel ready process is intended to bypass all major potential sources of delay in the development process so that investors can immediately capitalize on market dynamics.

However, the shovel ready program has been subject to numerous criticisms. Local agencies complain that they do not have enough money in their budget to cover the costs of rendering a site shovel ready. Legislators are reluctant to raise taxes and, economically depressed Upstate communities do not have the necessary capital. Moreover, local officials argue that it is not the town's duty to assume all the costs associated with development. These officials resent the fact that the responsibility, risks and costs of development have devolved to the local community. Finally, shovel ready is rarely feasible in New York State because of the high cost of land. A county or town must own the land it will make shovel ready. However, few localities can afford to purchase prime real estate.

Theoretically, had the redevelopment site been shovel ready, the project might not have been delayed to the point where market conditions no longer favored an ethanol plant. When faced with the question of why they did not render the site shovel ready, both developer as well as the IDA, however, clarified that shovel ready was not an option for this project. The IDA explained that the economically depressed region could not afford the cost of rendering the site shovel ready. The ethanol producer pointed out that ethanol production technology is continually changing. Theoretically, by the time all necessary permits had been obtained for a shovel ready ethanol

site, new permits would be needed for the new technology. Thus, in instances where the shovel ready program cannot be used such as our case study, economic development remains contingent upon successful articulation of political processes and market dynamics.

## Conclusion: Lessons Learned

Throughout this report, we have offered a series of general observations about the development process in New York State. A particular focus has been on understanding the role of New York State's unique development process plays in its lagging economic development. In brief, we have argued that successful economic development necessitates the synchronization of political processes and economic dynamics. In other words, rather than assume that market forces alone determine economic development, we must also acknowledge the role the political process plays. By the same token, it is inaccurate to singularly blame New York State's development process when economic development projects fail.

Our case study highlights the importance of transparency, trust and good communication among local officials as well as between officials and the general public throughout the development process. New York State's emphasis on Home Rule in governance makes local officials central players in economic development. Because local officials carry out the development process in New York State their trustworthiness is of central importance. If the public believes that these officials are untrustworthy, then there is a chance that the local population will perceive any development project local officials promote as inherently dubious.

Since New York State's governance structure can, in certain instances, negatively influence economic development, one could make a case for the abandonment of Home Rule and the establishment of a more centralized and standardized governance structure. Indeed, many developers and investors largely blame the confusing and cumbersome political process associated with development in New York for the state's lagging economy. In response, these developers propose standardizing New York's decentralized and heterogeneous political landscape, thereby creating a smooth and frictionless surface where capital can easily come and go as the market dictates.

However, not all development projects are created alike. Certain forms of economic development, such as ethanol, are particularly sensitive to market forces and thus less compatible with New York's political process. Doug Hofstrand at the Agriculture Marketing Resource Center at Iowa State University explains, "The profitabil-

ity of ethanol production is extremely variable. Due to the volatile price nature of ethanol and corn, its major feedstock, ethanol profitability can change rapidly from month to month. In addition, price variations of its co-product (distillers grains with soluble, DGS) and its energy source (natural gas) add to the variability of ethanol profits” (Hofstrand website, accessed August 23, 2008). These types of developments necessitate a speedy political process. In other words, permitting must be obtained quickly so that investor can obtain sufficient returns on their investment. This form of economic development is less compatible with New York State’s locally based system of governance, which involves a lengthy political process.

The system of Home Rule has a number of positive attributes. Rather than abandon this form of governance altogether, we would be better served to recognize that not all development projects are alike. Certainly, development projects that are heavily influenced by volatile market forces do not articulate well with New York’s governance structure. However, other types of economic development projects can work with New York State’s development process. A comprehensive development plan that takes New York State’s distinctive development process into consideration could help preserve the state’s unique system of democratic governance while also stimulating economic development.

More emphasis is needed on developing the capacity of local officials to facilitate local development. Local leaders and officials must have the capacity to elaborate and implement development strategies and to fully take advantage of state and federal resources and opportunities. Maintenance of such a leadership base is an ongoing challenge. Leaders and public officials come from a variety of backgrounds and may not have had sufficient training to deal with complex and changing circumstances. Another factor is the turnover in elected officials. New York faces a major challenge is helping communities develop and maintain the leadership needed to move forward. As indicated in this case study, leaders must have the capacity to competently manage the development process and instill the trust of their constituents. Only then can they effectively respond to emerging domestic and global market opportunities for community development. ♦

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